

Chief Consolidated Mining Co.

866 SECOND AVENUE
NEW YORK, N.Y. 10017

DEC 11 1989

DIVISION OF
OIL, GAS & MINING

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PRESIDENT'S LETTER TO SHAREHOLDERS

Dear Shareholder:

In my June 28, 1989 President's Letter to Shareholders included in Chief's 1988 Annual Report, I reported to you that Chief had filed a lawsuit on June 7, 1989 against Sunshine Mining Company and Drexel Burnham Lambert Incorporated in the United States District Court, District of Utah, Central Division. The principal purpose of this letter is to bring Chief's Shareholders up-to-date on the status of the lawsuit and other affairs of your Company.

THE LAWSUIT

Last Summer, Chief initiated the lawsuit as a result of Sunshine's refusal to proceed with its own plans to develop and mine the Burgin Mine that was leased from Chief by Sunshine in October 1980. Your Company also charged that Sunshine and Drexel Burnham wrongfully exploited Chief's properties by selling or participating in the sale of Sunshine securities on the strength of high grade silver and base metal reserves within Chief's properties, without Sunshine intending to mine the ores. Chief's legal claims against Sunshine include breach of contract, breach of duty of good faith and fair dealing, and conversion. Chief also asserted claims in the lawsuit against Sunshine and Drexel Burnham under the Federal Racketeering Laws (RICO). At present, the lawsuit is in the pre-trial discovery stage of the proceedings. Pre-trial discovery includes review of documents, depositions of potential witnesses and other discovery procedures normal in a case of this magnitude.

On November 27, 1989, the U.S. District Court Judge presiding over the case ruled in favor of motions by Sunshine and Drexel Burnham to dismiss the RICO claims brought against them by Chief. Chief's RICO claims were based upon allegations in its complaint that Sunshine and Drexel Burnham had violated SEC Rule 10b-5. At an oral hearing held in Salt Lake City on November 15, 1989, Sunshine and Drexel Burnham each argued that Chief's complaint did not state a cause of action under the Federal Racketeering Laws because Chief was not a purchaser or seller of the Sunshine securities that were sold under the securities offerings to which Chief's RICO claims were addressed, and further that Chief was not injured by Sunshine's and Drexel's use of the proceeds from the offering.

The Court, which is in the Tenth Federal Judicial Circuit, stated in its opinion that the question of whether the purchaser-seller requirement of civil Rule 10b-5 cases applies to a RICO claim based on Rule 10b-5 violations had not been decided in any Tenth Circuit cases and that only a few courts in other circuits had decided cases involving the issue. The Court further stated that it was addressing this question as an issue of first impression in the Tenth Circuit. The Court, citing the decisions in the other circuits, then ruled against Chief by holding that it could only

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bring a Rico claim based on violations of Rule 10b-5 if Chief were a purchaser or seller of securities. The Court deemed it unnecessary to reach the question of RICO injury to Chief. It is the intention of Chief in due course to appeal the Court's ruling that dismissed Chief's RICO claims against Sunshine and Drexel.

The Court's ruling on the RICO issue does not affect Chief's remaining causes of action against Sunshine involving the mining leases and Chief is actively proceeding in that regard.

The June 28, 1989 President's letter also disclosed that South Standard Mining Company, a co-lessor of Chief in one of the leases involved in the lawsuit, had been named as a defendant in order to permit the Court to grant the complete relief requested by Chief. In August 1989, Chief and South Standard reached an agreement and the status of South Standard was changed from being a defendant in the action to that of co-plaintiff with Chief in its action against Sunshine involving the leases.

Your Management is not in a position to predict the amount and nature of any potential recovery at this early stage of its lawsuit. However, your Management would not have initiated the lawsuit unless it believed that the claims against Sunshine relating to the mining leases alone would have a significant beneficial impact upon the value of Chief if Chief were successful in the lawsuit.

MAIN TINTIC DISTRICT DEVELOPMENTS


As we have previously advised Chief's Shareholders, your Company continuously expressed dissatisfaction to Western Mining Corporation of Australia over the nature of the exploration work by Western's U.S. subsidiary, Grand Central Mining under its lease on your Company's properties in the Main Tintic District. Grand Central has formally terminated its lease with Chief effective December 31, 1989. Your Company will endeavor to resume the underground exploration program either on its own or in joint venture or lease arrangement with an operating mining company. In addition, Chief is continuing to seek a joint venture partner for its Homansville gold exploration project.

POSTPONEMENT OF 1989 SHAREHOLDER'S MEETING

Your Management has postponed the next Chief shareholders' meeting until 1990. Several factors entered into the decision to postpone the 1989 meeting, the predominant one being that only a limited amount of information concerning Chief's lawsuit can be discussed at this stage of the litigation. At prior years' meetings, your Management was able to disclose corporate information and respond to questions posed by Shareholders. In order not to jeopardize Chief's position in the lawsuit, a written statement consistent with the information contained in this letter would have been read at the meeting regarding the current status of the lawsuit. By means of this letter, all of Chief's Shareholders are being brought up to date, rather than only those attending the meeting. Your Management will select a date for the next meeting of shareholders to be held in 1990 at the earliest date practicable and consistent with the best interest of Chief and its Shareholders.

We thank you for your continuing loyalty, patience and support. Please be assured that we shall keep the Shareholders apprised as to any major developments in Chief's lawsuit or other areas of your Company's mining interests.

Very truly yours,


LEONARD WEITZ
President and Chairman

December 1, 1989